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ICC STAFF EXHIBIT 1.00

DIRECT TESTIMONY

OF

THOMAS L. GRIFFIN

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

UTILITIES, INC.
HOLIDAY HILLS UTILITIES, INC.
COMMUNITY SERVICE CORPORATION

DOCKET No. 00-0763

FEBRUARY, 8, 2001

1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Thomas L. Griffin. My business address is 160 N. LaSalle St.
4 Chicago, Illinois 60601.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am a supervisor in the Accounting Department of the Financial Analysis Division of
7 the Illinois Commerce Commission ("Commission").

8 **Q. Please describe your qualifications.**

9 A. For sixteen years prior to my employment with the Commission, I served private
10 industry in various capacities, ranging from Staff Accounting positions to Manager
11 of Accounting and encompassing all areas of accounting and internal auditing.
12 Since joining the Commission's Accounting Department in 1978 I have participated
13 in or supervised the accounting activity in cases involving gas, electric, telephone
14 and water utilities as well as cases involving companies in the transportation
15 industry.

16 I have a degree in Business Administration with a concentration in Accounting from
17 Governors State University and a degree in Advanced Accounting from
18 International Accountants.

19 **Q. What is the function of the Accounting Department of the Illinois Commerce**
20 **Commission?**

21 A. The Department's function is to monitor the financial condition of public utilities as
22 part of the Commission's responsibilities under Article IV of the Public Utilities Act
23 (Act) (220 ILCS 5/4-101, et seq.) and to provide accounting expertise on matters
24 before the Commission.

25 **Q. Have you previously testified before this Commission?**

26 A. Yes, I have testified in numerous cases before the Illinois Commerce Commission.
27 I have also testified as an expert accounting witness before the Circuit Courts in
28 Rock Island, Illinois and Chicago, Illinois.

29 **Q. What are your responsibilities in this case?**

30 A. I have been assigned to this case by the Manager of the Accounting Department of
31 the Commission. I am to review Utilities, Inc. (Holiday Hills or Company) petition to
32 purchase Community Service Corporation and merge CSC into Holiday hills and
33 other relief. I am also to review the filed testimony, analyze the underlying data
34 and make recommendations where appropriate.

35

36

37 **Purpose of Testimony**

38 **Q. What is the purpose of your testimony in this proceeding?**

39 A. The purpose of my testimony is to address the Applicants' compliance with
40 Sections 7-204(b)(2), 7-204(b)(3) and 7-204(b)(7) of the Act. I will also address
41 their treatment of savings and costs associated with the proposed merger pursuant
42 to Sec.7-204(c). In addition I will address their request for Commission approval
43 for Holiday Hills Utilities, Inc. to enter into a service contract with Water Service
44 Corp., an affiliated company.

45 **Compliance with Section 7-204(b)(2)**

46 **Q. Describe the requirements of Sec. 7-204(b)(2).**

47 A. Sec. 7-204(b)(2) states that, to approve any proposed reorganization, the
48 Commission must find that the proposed reorganization will not result in the
49 unjustified subsidization of non-utility activities by the utility or its customers.

50 **Q. Is the Joint Petitioners proposed reorganization in compliance with Sect. 7-**
51 **204(b)(2)?**

52 A. Yes, In their Petition (page 5) the Joint Petitioners state that the proposed
53 reorganization will not result in the unjustified subsidization of non-utility activities by
54 Holiday Hills Utilities, inc. or its customers. I agree that none of Community
55 Service Corps' assets are utilized in non-utility activity. Thus, I recommend that the
56 Commission find that the proposed reorganization will not result in the unjustified
57 subsidization on non-utility activities by the utility or its customers in compliance
58 with Section 7-204(b)(2).

59 **Compliance with Section 7-204(b)(3)**

60 **Q. Describe the requirements of Sec. 7-204(b)(3).**

61 A. Sec. 7-204(b)(3) states that, to approve any proposed reorganization, the
62 Commission must find that costs and facilities are fairly and reasonably allocated
63 between utility and non-utility activities in such a manner that the Commission may
64 identify those costs and facilities which are properly included by the utility for rate
65 making purposes.

66 **Q. Is the Joint Petitioners proposed reorganization in compliance with Sect. 7-**
67 **204(b)(3)?**

68 A. Yes, to the extent that there would be any costs associated with non-utility
69 activities, the company has allocation procedures that would serve as a reasonable
70 means to guard against unjustified subsidization of non-utility activities. Thus, I

71 recommend that the Commission find that costs and facilities are fairly and
72 reasonably allocated between utility and non-utility activities in such a manner that
73 the Commission may identify those costs and facilities which are properly included
74 by the utility for ratemaking purposes in compliance with Section 7-204(b)(3).

75 **Compliance with Section 7-204(b)(7)**

76 **Q. Describe the requirements of Sec. 7-204(b)(7).**

77 A. Sec. 7-204(b)(7) states that, to approve any proposed reorganization, the
78 Commission must find that the proposed reorganization is not likely to result in any
79 adverse rate impacts on retail customers.

80 **Q. Is the Joint Petitioners proposed reorganization in compliance with Sect. 7-**
81 **204(b)(7)?**

82 A. Yes, I agree with Staff Witness King that there would be no adverse rate impact
83 due to the merger. Through the review of data request responses from the
84 Petitioners, I have concluded that cost reductions resulting from the merger that
85 would be realized by ratepayers in future rate proceedings would exceed any
86 additional cost to be realized by ratepayers in a future rate proceeding. Rates will
87 most likely increase in the future due to needed improvements to the system which
88 are discussed by Ms. Nicolas and Mr. King in their testimonies. However, since
89 Mr. King agrees that these improvements would need to be made regardless of

90 who owns the utility, this would not constitute an adverse rate impact on customers
91 due to the merger. Thus, I recommend that the Commission find that the proposed
92 reorganization is not likely to result in any adverse rate impacts on retail customers
93 in compliance with Section 7-204(b)(7).

94 **Compliance with Section 7-204(c)**

95 **Q. Describe the requirements of Sec. 7-204(c).**

96 **A.** *Sec. 7-204(c) states that, the Commission shall not approve a reorganization*
97 *without ruling on (i) the allocation of any savings resulting from the proposed*
98 *reorganization; and (ii) whether the companies should be allowed to recover any*
99 *costs incurred in accomplishing the proposed reorganization and, if so, the amount*
100 *of costs eligible for recovery and how the costs will be allocated.*

101 **Q. Have the Joint Petitioners addressed Sec. 7-204(c) of the Public Utilities Act**
102 **in their testimony?**

103 **A.** No. I obtained the company's position through data request responses to Staff
104 data requests.

105 **Q. What is the company's position with regard to savings resulting from the**
106 **proposed reorganization?**

107 A. In response to a data request, the Joint Petitioners indicated that there would be
108 savings in a number of expense categories, especially for insurance and rent
109 expense. The Joint Petitioners also indicated that any cost savings that result from
110 the merger will be passed on to rate payers in future rate cases. I agree with their
111 position. It is appropriate for future rates to reflect only future costs. Therefore,
112 future revenue requirements should not be increased in order to enable the
113 Company to retain any portion of the savings resulting from the merger. Future
114 revenue requirements should continue to be based upon the reasonable and
115 prudent costs incurred by the utility to provide service to its customers. I
116 recommend that the Commissions' Order find that any cost savings resulting from
117 the merger should not increase the revenue requirement in future rate filings.

118 **Q. What is the Company's position with regard to merger costs?**

119 A. In response to a data request, the Joint Applicants indicated that the total cost of
120 the merger is estimated to be \$7,000 and will be incurred to meet the necessary
121 cost of incorporation and regulatory approvals. The company responded that the
122 intention is to charge the costs to Account 301, "Organization Expense" and be
123 included in the company's rate base in future filings.

124 **Q. Do you agree with the Joint Petitioner's treatment of merger costs, which**
125 **was stated in response to your data request?**

126 A. No. Recent Commission Orders, which have been entered after the adoption of
127 Sec. 7-204(c) effective December 16, 1997, have identified this type of merger
128 costs as a "transactions cost" and have disallowed recovery of "transactions costs"
129 from ratepayers. The Commission has disallowed these "transactions costs" in the
130 following dockets:

131 98-0545 and 98-0546 - the merger of CIPS and UE into Ameren;

132 99-0121 -the rate determination of AmerenCIPS and AmerenUE for unbundled non
133 residential delivery services;

134 98-0555 - the merger of SBC and Ameritech;

135 98-0866 - the merger of GTE and Bell Atlantic;

136 99-0418 - the merger of Illinois American Water and Northern Illinois Water; and

137 99-0457 - the merger of Illinois American Water and United Water Company.

138 Therefore, I recommend that the entire cost incurred to affect the merger be
139 charged to Account 426, Miscellaneous Non-Utility Expenses."

140 **Q. Describe the proposed rate making treatment of the acquisition adjustment.**

141 A. The Joint Petitioners expect an acquisition adjustment resulting from the merger to
142 total approximately \$20,225. They intend to record the acquisition adjustment in
143 Account 114, "Utility Plant Acquisition Adjustments" and amortize the adjustment
144 below-the-line to Account 426, "Miscellaneous Non-Utility Expenses" over 50 years
145 and not include any unamortized portion in rate base. I support this treatment. I

146 recommend that the Commission order conclude that the acquisition adjustment
147 should be recorded in Account 114, "Utility Plant Acquisition Adjustments", and be
148 amortized below the line to Account 426, "Miscellaneous Non-Utility Expenses" over
149 50 years.

150 **Q. Please summarize your recommendations regarding the requirements of**
151 **Section 7-204(c).**

152 **A. I recommend that the Commission find the following in compliance with Section 7-**
153 **204(c):**

- 154 • Any cost savings resulting from the merger should not increase the revenue
155 requirement in future rate filings;
- 156 • The cost incurred to affect the merger be charged to Account 426,
157 "Miscellaneous Non-Utility Expenses"; and
- 158 • The acquisition adjustment should be recorded in Account 114, "Utility Plant
159 Acquisition Adjustments", and be amortized below the line to Account 426,
160 "Miscellaneous Non-Utility Expenses", over 50 years.

161 **Request for Approval of an Affiliated Service Contract**

162 Q. Do you support the Joint Petitioners' request for Holiday Hills Utilities, Inc.
163 to enter into a service contract with Water Service Corp., an affiliated
164 interest?

165 A. Yes, all of Utilities, Inc.'s Illinois Utility subsidiaries have such a service contract
166 with Water Services Corp. Various administrative costs are allocated to utilities for
167 services performed by Water Services. During each prospective rate case, Staff
168 would review the allocations for appropriateness. I recommend that the
169 Commission approve the service contract between Holiday Hills Utilities and Water
170 Services Corp.

171 **Other Recommendations**

172 Q. Do you have any other recommendations?

173 A. I recommend that the Commission order the Company to comply with Paragraph B
174 of the instruction to Account 104, "Utility Plant Purchased or Sold" of the Uniform
175 System of Accounts for Water Utilities (83 Ill. Adm. Code 605), and require the
176 Petitioners to file with the Commission, and a copy to the Manager of the
177 Accounting Department, the journal entries to clear from this account the amounts
178 recorded therein.

I also recommend that the Commission Order require Community Service Corporation file its annual report to the Commission (Form 22 ILCC) for the year 2000.

Summary

Q. Please Summarize your findings and recommendations.

1) that the Commission find that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers in compliance with Section 7-204(b)(2);

2) that the Commission find that costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes in compliance with Section 7-204(b)(3);

3) that the Commission find that the proposed reorganization is not likely to result in any adverse rate impacts on retail customers in compliance with Section 7-204(b)(7);

4) that the Commission order that any cost savings resulting from the merger should not increase the revenue requirement in future rate filings in compliance with Section 7-204(c)(i);

197 5) that the Commission order that the cost incurred to affect the merger be
198 charged to Account 426, Miscellaneous Non-Utility Expenses, in compliance
199 with Section 7-204(c)(ii);

200 6) that the Commission order that the acquisition adjustment should be recorded in
201 Account 114, Utility Plant Acquisition Adjustments, and be amortized below the
202 line to Account 426, Miscellaneous Non-Utility Expenses, over 50 years in
203 compliance with Section 7-204(c)(ii);

204 7) the Commission approve the service contract between Holiday Hills Utilities and
205 Water Services Corp;

206 8) that the Commission order the Company to comply with Paragraph B of the
207 instruction to Account 104, "Utility Plant Purchased or Sold" of the Uniform
208 System of Accounts for Water Utilities (83 Ill. Adm. Code 605), and require the
209 Petitioners to file with the Commission, and a copy to the Manager of the
210 Accounting Department, the journal entries to clear from this account the
211 amounts recorded therein; and

212 9) that the Commission order require Community Service Corporation to file its
213 annual report to the Commission (Form 22 ILCC) for the year 2000.

214 **Q. Does this conclude your testimony?**

215 A. Yes, it does.

Community Service Corporation :

Application for (1) authorization to carry out the :
terms of a Purchase Agreement between :
Utilities, Inc. and Community Service Corpora- :
tion providing for the acquisition by the former :
of all of the assets of the latter (2) cancellation :
of the Certificate of Public Convenience and :
and Necessity currently held by Community :
Service Corporation and authorization for it to :
for it to abandon its public utility business :
issuance to Holiday Hills Utilities of a certificate :
of Public Convenience and Necessity for the :
properties and assets to be transferred to it :
under the Purchase agreement and the service :
area currently served by Community Service :
Corporation; (4) authorization for Holiday Hills :
Utilities, Inc. to adopt for the service area :
presently served by Community Service :
Corporation, the rates, rules and regulations :
presently applicable in that area; (5) authoriza- :
tion for Holiday Hills Utilities, Inc. to enter into a :
service contract with Water Service Corp., a :
subsidiary of Utilities, Inc., for the furnishing of :
certain administrative, engineering, operating, :
accounting, legal, construction, billing, and :
customer relations services by Water Service :
Corporation. :

00-0763

CERTIFICATE OF SERVICE

I do hereby certify that copies of Direct Testimony of Tom Griffin, Roy King and Michael McNally, of the Financial Analysis Division, were served upon the parties on the attached service list by first class mail, proper postage prepaid, on the 8th day of February, 2001.

Scott A. Struck
Supervisor
Accounting Department

COMMUNITY SERVICE CORPORATION
Docket No. 00-0763
Service List

Mr. Russell Cashmore
Community Service Corporation
PO Box 189
McHenry, IL 60051

Mr. Carl J. Wenz
Vice President, Regulatory Matters
Utilities, Inc., Holiday Hills Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062

ILLINOIS COMMERCE COMMISSION

Terrance Hilliard, Hearing Examiner
Tom Griffin, Accounting Department
Scott Struck, Accounting Department
Roy King, Water Department
Michael McNally, FAD Division